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Chassis Take Center Stage



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By *Thomas O'Brien*

Most residents of Long Beach, whether part of the goods movement industry or not, probably know that longshoremen and terminal operators have been in negotiations over a new contract and that these negotiations have dragged on longer than most people would have predicted back when the talks started last spring. The casual observer might assume that the stumbling blocks have involved wages, benefits or labor-saving technology. They'd be right, but only in part. There are a number of other issues critical to both sides that have caused negotiators to dig in their heels.

That's why it was welcome news last week when the longshore union and the Pacific Maritime Association, which represents the terminal operators, appeared to reach a tentative agreement on the maintenance and repair of chassis. The question had been who gets the work inspecting equipment before the truck driver leaves the port. It's a relatively new point of contention resulting from the decision of ocean carriers – who once owned the chassis – to get out of the equipment business. As a result, third party leasing companies have increased their share of the chassis market.

It's not the only issue involving chassis to complicate the supply chain of late, and almost all of them are tied to the ocean carriers' decision to divest themselves of their chassis fleets. Why the change? Chassis facilitate the movement of intermodal cargo from the ocean vessel to truck and freight rail. Chassis storage has typically occurred at maritime terminals and rail yards. Unlike ocean carriers in other parts of the world, including in Canada, ocean carriers operating in the U.S. have traditionally owned the chassis and provided it to truckers for their use in transferring containers between the ports and distribution and intermodal facilities as part of local trips or drays. This model is a legacy of the early days of containerization, when ocean carriers invested in equipment in order to secure access to markets in the interior of the United States. The model has worked in California (in Southern California in particular) because available land has allowed terminals to store chassis on site and to place

containers “on wheels,” instead of stacking them, as a service to customers.

But this approach requires inefficient repositioning between inland distribution centers, warehouses and ports to return the equipment to its owner. It also creates situations where truckers are required to swap out or flip “foreign” chassis for one belonging to the ocean carrier stored on site. This necessitates more inefficient movements of equipment inside the terminal.

In recent years, carriers simply had to admit that this model of equipment management is not sustainable. At an estimated cost of \$8,000 per chassis, there are too many chassis being stored at too high a cost to carriers with not enough space. In addition, recent federal action on equipment “roadability” has eliminated much of the need for carriers to compete on the basis of their equipment's reliability. 2010 legislation passed by Congress authorizes the Federal Motor Carrier Safety Administration to mandate various fitness tests for chassis. The result is more standardized equipment across the industry.

The current environment features a number of different new chassis management business models including regional cooperatives and port or terminal-wide pools. Truckers themselves have the option of purchasing chassis, but often storage is problematic. The transition from ocean carriers to third party leasing companies has resulted, at least in the short term, in equipment shortages, a problem exacerbated by peak demand for equipment as a result of larger vessels calling at the local ports. In August 2012, the ports of Los Angeles and Long Beach created a Chassis Operations group. The result has been an increase in equipment interoperability but it hasn't fully resolved the problem of inventory visibility along the entire supply chain.

Chassis management changes may yet have other implications both at terminal facilities and outside the gates. The shift to management by third party chassis providers creates a need for chassis storage facilities for leasing companies, chassis pool operators and trucking companies near the ports and rail yards and at inland locations near distribution centers and warehouses. This has the potential to change intra-metropolitan freight flows, creating demand for infrastructure, including new access roads, particularly in the vicinity of the ports. There may be agreement on what happens to chassis inside the terminal gates but the impacts outside the gates are far from clear.

Dr. Thomas O'Brien is the Interim Executive Director for the Center for International Trade and Transportation (www.ccpe.csulb.edu/citt) at CSULB and the Associate Director of Long Beach Programs for the METRANS Transportation Center (www.metrans.org). METRANS is a joint partnership of the University of Southern California and California State University, Long Beach